Legal Aspects of Doing Business in North Carolina

Taxes

North Carolina's tax structure is based upon the premise that everyone should pay his fair share but that no one should be burdened excessively.

The tax structure is designed to be fair and reasonable for both individuals and corporations. It is administered uniformly and equitably and the revenues are spent prudently.

Since the state assumes a major role in operating public schools and highway construction and maintenance, local property taxes are lower in North Carolina than in most other states.

The state pays about two-thirds of the operating expenses of public schools (exclusive of federal funds); local governments pay the remainder and finance school capital outlays.

The state builds and maintains all highways and roads outside of municipalities and aids the municipalities in street construction and maintenance. Counties have no road responsibilities.

Local property taxes account for only 25 percent of the state and local revenue in North Carolina as compared with 36 percent nationally.

In order to reduce the impact of the property tax on manufacturers' inventories, the General Assembly enacted a law allowing a tax credit against the State income tax for such taxes paid on inventories of raw materials and goods in process of manufacture *which are "excessive."* That is, which exceed the normal. The new law goes into effect on January 1, 1980. Property taxes on the inventories are paid to counties and municipalities in the usual manner, thus protecting the local governments from revenue loss.

Specifically, the tax credit applies to taxes paid on "qualifying" inventories where the *book value* of the inventories are in excess of 15 percent of the manufacturing costs of the manufacturer during the income year. The cost of manufacturing includes materials used or consumed, labor, depreciation and factory overhead. If a manufacturer owes insufficient income tax to use the entire credit in the year in which paid, he may *carry the unused credit forward for five years*.

Where a manufacturer has more than one plant in the State which is operating separately, the tax credit may be computed separately for each plant.

For further information about the working of the tax credit, contact the North Carolina Department of Revenue.

North Carolina places relatively greater reliance on state revenue sources — chiefly corporate and individual income taxes and the general sales tax — and less reliance on local revenue sources such as the property tax.

The state's corporate income tax rate is 6 percent. This rate has not been changed since 1933. The state's franchise tax rate has been changed only once in the past 40 years when it was reduced.

Corporations subject to taxes in at least one other state or foreign country may apportion their North Carolina income using a three-factor formula, including a "destination" sales factor.

Environmental Regulations

North Carolina has an abundance of natural resources. Among them are the highest mountains in eastern America, four national forests, two national wilderness areas, two national seashores and a progressive system of state parks and state forests.

Together with a prolific wildlife population, these natural resources contribute to many outstanding recreational opportunities in the Tar Heel State. In order to protect this invaluable resource, North Carolina is committed to the prudent use and management of its environment.

North Carolina's environmental regulations have been developed to achieve a compromise between the existing need for economic development and the necessity for preserving our natural resources.

The compatability between state and federal programs has resulted in the delegation to the state of authority to issue permits and to conduct many of the reviews required by the Clean Air Act.